

## Message Text

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TO AMEMBASSY JIDDA IMMEDIATE

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E.O. 11652: ADS - DECLASS UPON RECEIPT

TAGS: PINT, SA

SUBJECT: NEW YORK TIMES ARTICLE ON NORTHROP ACTIVITIES

FOR AMBASSADOR

1. FOLLOWING ARTICLE WRITTEN BY MICHAEL C. JENSEN APPEARED  
IN JUNE 5 LATE EDITION OF NEW YORK TIMES.

BEGIN TEXT: THE NORTHROP CORPORATION PAID DOLS 450,000 IN  
BRIBES IN 1972 AND 1973 EARMARKED FOR TWO SAUDI ARABIAN  
GENERALS, ACCORDING TO A CONFIDENTIAL REPORT PREPARED BY  
NORTHROP'S ACCOUNTING FIRM.

THE BRIBES, APPARENTLY DESIGNED TO HELP NORTHROP WIN AN  
AIRCRAFT PROCUREMENT CONTRACT, WERE SAID TO HAVE BEEN PAID  
BY NORTHROP TO A CONCERN CONTROLLED BY ADNAN M. KHASHOGGI,  
A MIDDLE EAST BUSINESSMAN WHO HAS SERVED AS A SALES AGENT  
FOR A NUMBER OF UNITED STATES ARMS MANUFACTURERS; INCLUDING  
NORTHROP.

THE ASSOCIATED PRESS REPORTED THAT A SPOKESMAN FOR MR.  
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KHASHOGGI DENIED THAT ANY SUCH BRIBES WERE PAID.

THE CONFIDENTIAL REPORT ALSO QUOTED A WASHINGTON LAWYER WHO

SERVES AS A NORTHROP CONSULTANT AS HAVING SAID THAT BRIBERY AND GRAFT HAD BEEN EMPLOYED IN DEALINGS WITH THE UNITED STATES MILITARY. HE DID NOT REFER SPECIFICALLY TO NORTHROP IN THIS CONNECTION.

THE REPORT DID NOT CITE ANY SPECIFIC EXAMPLES OF BRIBERY OF AMERICAN MILITARY OFFICERS ON ACTIVE DUTY, BUT MENTIONED ONE INSTANCE OF A FORMER TWO-STAR GENERAL'S BEING HIRED FOR DOLS 1,000 A MONTH BY THE NORTHROP CONSULTANT FRANK J. DEFRANCIS, FOR NORTHROP'S "PROTECTION."

NORTHROP DECLINED TO COMMENT ON THE REPORT, AND ATTEMPTS TO REACH MR. DEFRANCIS WERE UNSUCCESSFUL.

THE DETAILS OF THE NORTHROP FINANCIAL DEALINGS WERE CONTAINED IN A CLOSELY HELD CONFIDENTIAL SECTION OF THE LENGTHY REPORT PREPARED BY ERNST AND ERNST, NORTHROP'S OUTSIDE ACCOUNTING FIRM, AT NORTHROP'S REQUEST.

MUCH OF THE REPORT HAS BEEN PREVIOUSLY DISCLOSED, BUT NORTHROP HAD REQUESTED AND BEEN GRANTED CONFIDENTIAL TREATMENT OF WHAT IS KNOWN AS SECTION 4, WHICH DEALS LARGELY WITH OVERSEAS PAYMENTS. A COPY OF THAT SECTION WAS MADE AVAILABLE YESTERDAY TO THE NEW YORK TIMES.

NORTHROP HAS ALREADY ADMITTED TO MAINTAINING A DOLS 1.14 MILLION SLUSH FUND FOR POLITICAL CONTRIBUTIONS, MANY OF THEM ILLEGAL.

THE COMPANY HAS ALSO ADMITTED TO MAKING DOLS 150,000 IN ILLEGAL CONTRIBUTIONS TO THE 1972 NIXON CAMPAIGN, INCLUDING AT LEAST DOLS 50,000 THAT EVENTUALLY WENT TO THE WATERGATE BURGLARS SILENCE.

LAST APRIL THE COMPANY SETTLED, IN A CONSENT AGREEMENT, A SUIT BY THE SECURITIES AND EXCHANGE COMMISSION IN WHICH IT WAS CHARGED WITH MAINTAINING A SECRET FUND FOR LIMITED OFFICIAL USE  
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POLITICAL CONTRIBUTIONS. NEXT WEEK NORTHROP OFFICIALS ARE SCHEDULED TO APPEAR BEFORE THE SENATE FOREIGN RELATIONS SUBCOMMITTEE ON MULTINATIONAL CORPORATIONS TO DISCUSS PAYMENTS OF OVERSEAS FEES AND COMMISSIONS.

NORTHROP HAS ALREADY STATED THAT IT PAID MORE THAN DOLS 30 MILLION IN AGENTS' FEES AND COMMISSIONS, MUCH OF IT FOR OVERSEAS SALES, FROM 1971 TO 1973.

ACCORDING TO THE CONFIDENTIAL SECTION OF THE ERNST AND ERNST REPORT, WHICH WAS ORDERED SEALED BY THE S.E.C., LARGE FEES WERE PAID BY NORTHROP IN SAUDI ARABIA, IRAN,

MALAYSIA, BRAZIL AND TAIWAN.

IN REFERRING TO THE BRIBES EARMARKED FOR THE SAUDI GENERALS, THE ERNST AND ERNST REPORT SAID THAT DURING 1971 A REPRESENTATIVE OF TRIAD, MR. KHASHOGGI'S CONCERN, "APPROACHED A REPRESENTATIVE OF NORTHROP AND INDICATED THAT IT WOULD BE NECESSARY FOR TRIAD TO MAKE A PAYMENT TO A SAUDI GENERAL IN ORDER TO ASSURE HIS SUPPORT ON A FOLLOW-ON CONTRACT."

THE REPORT SAID A MEETING WAS HELD IN SAUDI ARABIA, THAT A COMMITMENT WAS "SOLICITED," AND THAT "NORTHROP ULTIMATELY ASSUMED THE OBLIGATION FOR THE PAYMENT (DOLS 250,000).

A SIMILAR PAYMENT (DOLS 200,000) WAS REPORTED BY TRIAD TO BE REQUIRED IN 1973 TO THE SUCCESSOR OF THE ABOVE REFERENCED GENERAL," THE REPORT SAID.

IT ADDED THAT THE PAYMENTS WERE MADE TO TRIAD IN THE FORM OF "NONINTEREST BEARING ADVANCES," AND THAT WHEN THE SECOND ADVANCE WAS PAID, TRIAD AGREED THAT THE TOTAL OF THE ADVANCES WOULD BE APPLIED AS A CREDIT AGAINST POSSIBLE COMMISSIONS EARNED ON FUTURE ARMAMENTS SALES.

THE ERNST AND ERNST REPORT SAID THAT DISCUSSIONS WITH NORTHROP EXECUTIVES HAD CONFIRMED THE PAYMENT OF THE DOLS 450,000 TO TRIAD.

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IT ALSO STATED THAT THE NORTHROP OFFICIALS "INDICATED THAT THERE WAS NO WAY FOR THEM TO KNOW WHETHER OR NOT SUCH PAYMENTS WERE ACTUALLY REQUIRED, OR WHETHER SUCH PAYMENTS WERE ACTUALLY MADE TO THE GENERALS."

THE ASSOCIATED PRESS SAID A SPOKESMAN FOR MR. KHASHOGGI IN WASHINGTON SAID TRIAD HAD RECEIVED DOLS 450,000 FROM NORTHROP, BUT THAT IT WAS NOT PAID IN CASH AND WAS FOR LEGITIMATE EXPENSES.

THE SPOKESMAN QUOTED MR. KHASHOGGI AS HAVING SAID, "THERE IS NO FOUNDATION TO THE REPORTS. IT IS AN INSULT TO MY COUNTRY."

REGARDING THE ALLEGATION OF BRIBERY OF AMERICAN MILITARY OFFICIALS, THE ERNST AND ERNST INVESTIGATORS SAID THEY HELD A GENERAL DISCUSSION WITH MR. DEFRANCIS, THE NORTHROP CONSULTANT ABOUT BRIBES AND GRAFT IN THE UNITED STATES COMPARED WITH SIMILAR PRACTICES IN OTHER COUNTRIES.

THEY QUOTED MR. DEFRANCIS AS HAVING SAID THAT IN HIS

OPINION, THE SITUATION - BRIBES AND GRAFT - "WAS PRESENT"  
IN AMERICA, "AT LEAST INsofar AS THE UNITED STATES  
MILITARY WAS CONCERNED.

HE (DEFRANCIS) SAID THAT FOR APPROXIMATELY A YEAR AFTER  
LEAVING THE SERVICE AN OFFICER COULD BE EFFECTIVE IN  
HELPING ON VARIOUS MATTERS, THE REPORT CONTINUED." HE  
WENT ON TO POINT OUT THE MANY OFFICERS WHO HAD TAKEN  
POSITIONS WITH COMPANIES FOLLOWING THEIR RETIREMENT."

THE ERNST AND ERNST REPORT ALSO LISTED PAYMENTS OF MORE  
THAN DOLS 500,000 BY NORTHROP IN 1971 AND 1973 TO A  
COMPANY DESCRIBED AS THE CANTONA FINANCIAL ESTABLISHMENT  
WHICH, IT SAID, WAS OPERATED BY A SAUDI ARABIAN "PRINCE"  
WHO WAS NOT OTHERWISE IDENTIFIED.

THE REPORTS SAID THE "PRINCE" APPROACHED A NORTHROP  
REPRESENTATIVE DURING A MAJOR CONTRACT SIGNING AND  
INDICATED THAT HE DESERVED A COMMISSION ON THE SALE FOR  
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THE WORK HE HAD PERFORMED.

REPRESENTATIVES OF THE SAUDI GOVERNMENT ALSO APPROACHED  
THE NORTHROP REPRESENTATIVE, ON AN UNOFFICIAL BASIS, THE  
REPORT SAID, AND SAID THEY "HOPED THINGS WOULD BE WORKED  
OUT TO HIS (THE PRINCE'S) SATISFACTION." KISSINGER

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## Message Attributes

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